

Message Text

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AMCONSUL HONG KONG

C O N F I D E N T I A L SEOUL 3005

FOR HENNESSEY FROM GORDON

E.O. 11652: GDS

TAGS: EFIN, KS, IMF

SUBJ: KOREAN ACCESS TO IMF PROPOSED OIL FACILITY

1. INTRODUCTION AND SUMMARY: MINISTRY OF FINANCE OFFICIAL ASKED GORDON, REGIONAL TREASURY REPRESENTATIVE, TO SUPPORT ROKG REQUEST TO IMF OBTAIN LARGER VOLUME OF CREDIT FROM OIL FACILITY THAN CURRENT FORMULA WOULD PERMIT. PROBLEM IS THAT 75 PERCENT OF QUOTA CUT-OFF WOULD ONLY GIVE KOREA SDR 60 MILLION, OR 18.5 PERCENT OF SDR 324 MILLION CALCULATED BY FUND AS KOREA'S REQUIREMENT. MINISTER OF FINANCE, NAM, DUCK WOO, IS PROPOSING 50 PERCENT, OR SDR 162 MILLION. HE BELIEVES HE HAS YOUR SUPPORT, BASED ON MEETING IN KUALA LUMPUR. (SEE EMBASSY SEPTTEL FOR DETAILS.)

2. PROPOSED OIL FACILITY IS MORE SUITED TO KOREA THAN OTHER LDC'S. IT FALLS INTO CATEGORY OF FIVE TO TEN COUNTRIES WHOSE RAPIDLY GROWING EXPORTS, IN COMBINATION WITH CURRENT DEBT SERVICE RATIO (ROK WAS 14 PERCENT IN 1973) ENABLE THEM TO CONTINUE TO BORROW SUBSTANTIAL AMOUNTS OF CREDIT ON COMMERCIAL TERMS WITHOUT HURTING THEIR CREDIT RATING. CURRENT ALTERNATIVE FOR KOREA TO OIL FACILITY
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WOULD BE MORE EXPENSIVE BORROWING FROM EURODOLLAR MARKET EXEMPLI-

FIED BY RECENT LOAN TO KOREA DEVELOPMENT BANK AT LIBO PLUS ONE PERCENT FOR TEN YEARS, INCLUDING THREE YEARS OF GRACE.

3. WHILE CURRENT ACCOUNT DEFICIT IS EXPECTED TO WIDEN FROM EXCEPTI-
ONALLY GOOD RESULT OF \$300 MILLION IN 1973 TO \$1 BILLION IN 1974,
COMBINATION OF INCREASED BANK LONG-TERM BORROWING, GREATER RELIANCE
ON SHORT-TERM FINANCING AND SUPPLIER CREDITS SHOULD TAKE CARE OF
PROBLEM. IT IS LIKELY THERE WILL BE ANOTHER LARGE CURRENT ACCOUNT
DEFICIT IN 1975 ASSUMIML BY CONTINUING HIGH OIL, GRAIN AND COTTON
AND OTHER COMMODITY PRICES, WHICH WOULD REQUIRE MORE EXTENSIVE
BORROWING FROM EURODOLLAR MARKET AND/OR U.S. BANKS. WHETHER
KOREA'S ACCESS WILL BE AS GOOD A YEAR FROM NOW WILL DEPEND ON
DEMANDS FROM DEVELOPED COUNTRIES.

4. IT WOULD APPEAR ONLY REASONABLE BASIS EXEMPT KOREA FROM IMF
FORMULA WOULD BE DEMONSTRATION THAT ITS CURRENT QUOTA, COMPARED TO
OTHER LDC'S, IS UNIQUELY OUT OF LINE WITH COUNTRY'S PRESENT ECON-
OMIC POSITION. THIS SEEMS TO BE RATIONALE BEHIND ROKG PROPOSAL
OF SDR 162 MILLION WHICH EQUALS ABOUT 75 PERCENT OF 210-220
MILLION DOLLARS THAT KOREA MIGHT QUALIFY FOR IN UPCOMING
QUINQUENNIAL REVIEW.

5. KOREA HAS ALSO MADE INFORMAL REQUEST TO IBRD OFFICIAL FOR DOLS
200 MILLION PROGRAM LOAN ON GROUNDS OF GROWING INCREASED IMPORT
COSTS.

6. WOULD RECOMMEND THAT RELATIVE INADEQUACY OF KOREA'S QUOTA
COMPARED TO OTHER LDC'S BE EXPLORED AS EQUITABLE BASIS FOR
PROVIDING KOREA GREATER ACCESS TO OIL FACILITY. APPARENTLY ROKG
REGARDS PROGRAM LOAN AS OTHER MEANS OF FINANCE, WHICH MAY PRESENT
OTHER POLICY PROBLEMS.

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